

Message Text

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ACTION EB-07

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C O N F I D E N T I A L GENEVA 7842

EB FOR KATZ

E.O. 11652: GDS

TAGS: UNCTAD, ETRD, EAGR

SUBJ: COCOA NEGOTIATIONS: EC PROPOSAL

REF: STATE 235770

SUMMARY. AT MEETING OF PRICE CONTACT GROUP OCT 15, EC SPOKESMAN PROPOSED NEW PACKAGE WITH 44 US CENT MID-POINT IN A 16 CENT RANGE; A 7 TO 8 CENT FREE MARKET ZONE (I.E., NO QUOTAS); USE OF THE BUFFER STOCK IN NORMAL COMMERCIAL CHANNELS TO DEFEND THE MAXIMUM AND MINIMUM PRICE AND USE OF QUOTAS AT THE LOW END AS ADDITIONA SUPPORT. PRODUCERS RESPONDED BY AGREEING TO A WIDER PRICE RANGE (18 CENTS) BUT INSISTED ON A 50 CENT MID-POINT AND THAT THE MID-POINT TRIGGER PRICE AND QUOTA MECHANISMS. THE EC PROPOSAL IS LIKELY TO BE USED AS A BASIS FOR FURTHER NEGOTIATION, BUT DIFFERENCES BETWEEN THE PRODUCERS AND CONSUMERS ARE STILL SUBSTANTIAL, ESPECIALLY ON PRICE. U.S. DEL REQUESTS INSTRUCTIONS. END SUMMARY.

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1. AFTER 3 AND ONE HALF WEEKS, EC WAS FINALLY ABLE TO PRESENT COORDINATED EC PROPOSAL FOR BASIC ECONOMIC PROVISIONS OF AGREEMENT. PROPOSAL APPARENTLY REPRESENTS EC ATTEMPT TO INCORPORATE SOME U.S. IDEAS FOR FLEXIBLE AGREEMENT. RANGE OF PROPOSAL IS THIRTY-SIX CENT MINIMUM TO 52 CENT MAXIMUM, WITH 44 CENT MID-POINT. IN MIDDLE 7 TO 8 CENTS OF RANGE, THERE WOULD BE FREE MARKET ZONE, WITH NO QUOTAS OR BUFFER STOCK OPERATIONS. ABOVE FREE MARKET ZONE, BUFFER STOCK WOULD DEFEND MAXIMUM BY SALES IN COMMERCIAL MARKETS. BELOW FREE MARKET ZONE, MINIMUM WOULD BE DEFENDED BY BOTH QUOTAS AND BUFFER STOCK OPERATIONS.

2. DEFENSE OF MAXIMUM: PROTECTION OF THE MAXIMUM PRICE WOULD BEGIN SEVERAL CENTS BELOW THE MAXIMUM PRICE (ABOUT 48 CENTS) WITH BUFFER STOCK SALES EQUIVALENT TO 2.5 PERCENT OF ANNUAL QUOTA. IF PRICES CONTINUED TO RISE, BUFFER STOCK SALES WOULD BE MADE THROUGH NORMAL COMMERCIAL CHANNELS UP TO LIMITS OF BUFFER STOCK AVAILABILITIES AFTER THE PRICE PASSED THE MAXIMUM PRICE OF 52 CENTS.

3. DEFENSE OF MINIMUM: BELOW THE FREE MARKET RANGE, AT ABOUT 40 CENT PRICE LEVEL, 100 PERCENT OF ANNUAL QUOTAS WOULD BE IN EFFECT. IF PRICES DROPPED A FURTHER UNSPECIFIED AMOUNT, QUOTAS WOULD BE REDUCED BY 2.5 PERCENT AND THE BUFFER STOCK WOULD BUY THE QUOTA CUT FROM PRODUCERS AT FULL MARKET PRICE. IF PRICES CONTINUED STILL FURTHER DOWNWARD, THE BUFFER STOCK WOULD BUY ACTUALS THROUGH NORMAL COMMERCIAL CHANNELS AT MARKET PRICES, UP TO 2.5 PERCENT TOTAL ANNUAL QUOTA. IF PRICES REACHED THE MINIMUM, THE BUFFER STOCK WOULD BUY UP TO ITS AUTHORIZED CAPACITY THROUGH COMMERCIAL CHANNELS. UNDER THE EC PROPOSAL, THESE PERCENTAGE ADJUSTMENTS COULD BE MODIFIED BY SPECIAL VOTE OF COUNCIL. HOWEVER, THE PRICE FRAMEWORK COULD ONLY BE REVISED AFTER TWO YEARS.

4. PRODUCERS RESPONDED BY CONTINUING TO INSIST ON A 50 CENT MID-POINT, WHICH MUST BE WITHIN THE 100 PERCENT QUOTA ZONE. PRODUCERS PROPOSED THAT QUOTAS BE SUSPENDED

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ONLY WHEN PRICE REACHED LEVEL SIX CENTS BELOW MAXIMUM.

5. BELOW THE 100 PERCENT QUOTA ZONE, PRODUCERS PROPOSED A SINGLE QUOTA CUT OF 4 PERCENT (AS OPPOSED TO TWO CUTS OF 5 PERCENT EACH IN PRESENT AGREEMENT). QUOTA CUT WOULD BE ABSORBED BY BUFFER STOCK. PRODUCERS INSIST BUFFER STOCK ONLY BUY PHYSICAL COCOA FROM PRODUCERS AND NOT REPEAT NOT OPERATE ON TERMINAL

MARKETS. AT MINIMUM OR BELOW, BUFFER STOCK WOULD
PURCHASE TO MAXIMUM CAPACITY.

6. EC PACKAGE PROPOSAL PICKED UP WIDE SUPPORT AMONG
OTHER CONSUMER MEMBER DELEGATIONS, INCLUDING USSR.
SUPPORTED BY OTHER CONSUMER MEMBERS, EC MADE CLEAR IT
NOT INTERESTED IN PRODUCER COUNTER-PROPOSALS.

7. ACTION REQUESTED: PER INSTRUCTIONS REFTTEL, U.S.
DEL REQUESTS INSTRUCTIONS ON PRICE LEVELS AND ON EC
PACKAGE, WHICH, WITH ONLY TWO DAYS LEFT IN CONFERENCE,
MAY PICK UP SUPPORT AS "COMPROMISE" BETWEEN U.S.
PROPOSALS AND OLD AGREEMENT.ABRAMS

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